

**TAX INCREMENT FINANCE
AUTHORITY OF THE CITY OF
LANSING**

**(A Component Unit of the
City of Lansing, Michigan)**

Lansing, Michigan

BASIC FINANCIAL STATEMENTS

**For the Year Ended
June 30, 2008**



REHMANN ROBSON

Certified Public Accountants

**TAX INCREMENT FINANCE AUTHORITY OF
THE CITY OF LANSING**
(A Component Unit of the
City of Lansing, Michigan)

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1-2
Basic Financial Statements for the Year Ended June 30, 2008	
Statement of Net Assets	3
Statement of Activities	4
Balance Sheet – Governmental Funds	5
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	6
Statement of Revenue, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	7
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Notes to Basic Financial Statements	9-14
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	15-16

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



INDEPENDENT AUDITORS' REPORT

December 19, 2008

Board of Directors
Tax Increment Finance Authority of the City of Lansing
City of Lansing, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the ***Tax Increment Finance Authority of the City of Lansing, a component unit of the City of Lansing, Michigan***, as of and for the year ended June 30, 2008, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the ***Tax Increment Finance Authority of the City of Lansing*** as of June 30, 2008, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Authority has not presented Management's Discussion and Analysis as required supplementary information. The GASB has determined that such information is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2008, on our consideration of Tax Increment Finance Authority of the City of Lansing's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, stylized 'L' at the beginning.

BASIC FINANCIAL STATEMENTS

**TAX INCREMENT FINANCE AUTHORITY OF
THE CITY OF LANSING
Statement of Net Assets
June 30, 2008**

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 884,657
Interest receivable	1,512
Bond issuance costs	<u>37,801</u>
Total assets	<u>923,970</u>
Liabilities	
Accounts payable and accrued liabilities	267,618
Accrued interest payable	10,731,864
Long-term debt:	
Due within one year	2,790,601
Due in more than one year	<u>25,038,270</u>
Total liabilities	<u>38,828,353</u>
Net assets	
Unrestricted (deficit) - See Note 2	<u><u>\$ (37,904,383)</u></u>

The accompanying notes are an integral part of these financial statements.

**TAX INCREMENT FINANCE AUTHORITY OF
THE CITY OF LANSING
Statement of Activities
For the Year Ended June 30, 2008**

Functions / Programs

Governmental activities:	
Development expenses	<u>\$ 3,624,584</u>
General revenues:	
Other revenue	6,750
Property taxes	5,640,808
Unrestricted investment earnings	<u>136,670</u>
Total general revenues	<u>5,784,228</u>
Change in net assets	2,159,644
Net deficit, beginning of year	<u>(40,064,027)</u>
Net deficit, end of year	<u><u>\$ (37,904,383)</u></u>

The accompanying notes are an integral part of these financial statements.

**TAX INCREMENT FINANCE AUTHORITY OF
THE CITY OF LANSING
Balance Sheet
Governmental Fund
June 30, 2008**

	<u>General Fund</u>
<u>ASSETS</u>	
Assets	
Cash and cash equivalents	\$ 884,657
Interest receivable	<u>1,512</u>
<u>TOTAL ASSETS</u>	<u><u>\$ 886,169</u></u>
<u>LIABILITIES AND FUND BALANCE</u>	
Liabilities	
Due to primary government	\$ 267,618
Fund balance	
Unreserved, undesignated	<u>618,551</u>
<u>TOTAL LIABILITIES AND FUND BALANCE</u>	<u><u>\$ 886,169</u></u>

The accompanying notes are an integral part of these financial statements.

**TAX INCREMENT FINANCE AUTHORITY OF
THE CITY OF LANSING
Reconciliation of Fund Balances on the Balance Sheet
for the Governmental Fund to Net Deficit of
Governmental Activities on the Statement of Net Assets
June 30, 2008**

Fund balance - Governmental Fund	\$ 618,551
Amounts reported for governmental activities in the statement of net assets are different because:	
Costs associated with the issuance of bonds are expended in the individual funds, but are capitalized and amortized over the life of the bonds in the statement of net assets.	
Add: deferred charges for bond issuance costs	37,801
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Deduct: accrued interest on long-term debt	(10,731,864)
Deduct: long-term debt	<u>(27,828,871)</u>
Net deficit of governmental activities	<u>\$ (37,904,383)</u>

The accompanying notes are an integral part of these financial statements.

**TAX INCREMENT FINANCE AUTHORITY OF
THE CITY OF LANSING**
**Statement of Revenue, Expenditures, and Changes
in Fund Balance - Budget and Actual
General Fund**
For the Year Ended June 30, 2008

	Original/ Final Budget	Actual	Actual Over (Under) Budget
Revenue			
Other revenue	\$ -	\$ 6,750	\$ 6,750
Property taxes	5,467,985	5,640,808	172,823
Interest	53,645	136,670	83,025
Total revenue	5,521,630	5,784,228	262,598
Expenditures			
Operating	333,399	282,452	(50,947)
Capital projects - courts	572,895	572,895	-
Debt service:			
Principal	4,695,000	2,578,305	(2,116,695)
Interest and fiscal charges	-	1,766,695	1,766,695
Total expenditures	5,601,294	5,200,347	(400,947)
Net change in fund balance	(79,664)	583,881	663,545
Fund balance, beginning of year	34,670	34,670	-
Fund balance, end of year	\$ (44,994)	\$ 618,551	\$ 663,545

The accompanying notes are an integral part of these financial statements.

**TAX INCREMENT FINANCE AUTHORITY OF
THE CITY OF LANSING**
**Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of the Governmental Fund
to the Statement of Activities**
For the Year Ended June 30, 2008

Net change in fund balance - General fund	\$ 583,881
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Amounts reported for *governmental activities* in the statement of activities are different because:

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Deduct: amortization of bond issuance costs	(3,287)
Deduct: change in accrued interest on bonds	(999,255)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities	<u>2,578,305</u>
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Change in net assets of governmental activities	<u><u>\$ 2,159,644</u></u>
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The accompanying notes are an integral part of these financial statements.

TAX INCREMENT FINANCE AUTHORITY OF THE CITY OF LANSING

Notes To Basic Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – The Tax Increment Finance Authority of the City of Lansing (the “Authority”), a component unit of the City of Lansing, was established by the City of Lansing (the City) on May 26, 1981, under the authority contained in Act 450, Michigan Public Acts of 1980 (the Act). The Act authorizes the City to designate specific districts within its corporate limits as Tax Increment Finance Authority Districts (the Districts). The Authority is appointed to preside over such Districts, and it is authorized to formulate plans for public improvements, economic development, neighborhood revitalization and historic preservation within the Districts. The Act allows the Authority to participate in a broad range of improvement activities intended to contribute to economic growth and prevent property value deterioration. Tax increment financing plans must be approved by the City.

The Authority is a component unit of the City of Lansing, Michigan (the “City”) because the City appoints the Authority’s Board of Directors, it has the ability to significantly influence the Authority’s operations and it is financially accountable for the Authority as defined under GASB Statement No. 14, *The Financial Reporting Entity*. Accordingly, the Authority is presented as a discrete component unit in the City’s financial statements and is an integral part of that reporting entity.

Government-wide and Fund Financial Statements – The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of the interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity are offset by program revenues. Direct expenses are those that are clearly identifiable activities with a specific function or identifiable activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a function or identifiable activity and 2) grants and contributions that are restricted to meeting the operational requirement of a particular function or identifiable activity. Property taxes not properly included among program revenues are reportable instead as general revenues.

Measurement Focus, Basis of Accounting and Financial Statement Presentation – The government-wide financial information is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

TAX INCREMENT FINANCE AUTHORITY OF THE CITY OF LANSING

Notes To Basic Financial Statements

Governmental fund financial information is reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Authority reports a single major governmental fund – the general fund. The *general fund* is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in another fund, if any.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB.

Long-term Obligations – In the government-wide financial statements, long-term debt is reported as a liability. Bond discounts, as well as issuance costs, if any, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Budgetary Information – The Authority has established the following procedures for determining the budgetary data presented in the accompanying financial statements:

- The secretary of the Authority's Board of Directors submits to the City Council of the City of Lansing a proposed operating budget for the fiscal year commencing the following July 1st. The budget includes proposed expenditures and the means of financing them.

TAX INCREMENT FINANCE AUTHORITY OF THE CITY OF LANSING

Notes To Basic Financial Statements

- A public hearing is conducted to obtain taxpayer comments.
- Prior to July 1st, the budget is legally adopted by City Council resolution, pursuant to the Uniform Budgeting and Accounting Act (P.A. 621). This act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or to allow expenditures in excess of original estimates. Expenditures shall not be made or incurred unless authorized in the budget and shall not exceed the amount appropriated.
- Formal budgetary integration is employed as a management control device during the year for the funds.
- Budgets are adopted on a basis consistent with generally accepted accounting principles.
- The budget is adopted at the functional level as reported in the budgetary comparison schedules, which are included as required supplementary information. Expenditures may not exceed budget at the functional level.

2. NET ASSET DEFICIT

The statement of net assets shows a deficit of \$37,904,383, which is due to the full accrual accounting of all long-term debt, without reflecting a corresponding receivable for tax captures to be received in future periods (which cannot be accrued in accordance with generally accepted accounting principles). Total fund balance (before taking into consideration long-term debt) amounts to a positive balance of \$618,551.

3. CASH AND INVESTMENTS

Deposits – At year-end, the carrying amount and bank balance of the Authority's deposits were \$35,481. The entire bank balance was covered by federal depository insurance.

Subsequent to year end, the level of federal insurance on deposits was increased from \$100,000 to \$250,000. The Corporation believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Corporation evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

TAX INCREMENT FINANCE AUTHORITY OF THE CITY OF LANSING

Notes To Basic Financial Statements

Investments – The Authority's entire investment balance of \$849,176 as of June 30, 2008 consisted of unrated money market funds. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of their investments or collateral securities that are in the possession of an outside party. Although uninsured and unregistered, the Authority's investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department in the Authority's name.

The Authority follows the investment policy of the City of Lansing.

4. LEASE CONTRACT

On December 20, 1994, the Authority entered into a 20-year lease contract with the City of Lansing to assist in the financing of various automobile parking structures and lots. Upon termination of the contract in accordance with the provisions of Section 2, the City shall convey the project and the sites to the Authority without consideration if permissible under the City Charter and applicable State law and the City ordinances by deed and appropriate bills of sale in such form and manner as may be approved by the City Attorney. The lease amortization is disclosed in Note 5.

5. LONG-TERM DEBT

On December 17, 1994, the Authority issued \$25,108,133 in general obligation tax increment bonds with an average interest rate of 6.55%, to provide funds for additional work on the Convention/Exhibition Center waterfront project and to advance refund \$23,625,000 in outstanding 1992 Tax Increment Bonds with an average interest rate of 5.1%. All defeased debt was paid as of June 30, 2005. Principal and interest on the obligation are expected to be satisfied through incremental tax revenues levied for the Authority. The bonds are collateralized by the Convention/Exhibition Center District revenues and the pledged full faith, credit and limited taxing power of the City. The defeasance was approved by board resolution on December 7, 1994.

TAX INCREMENT FINANCE AUTHORITY OF THE CITY OF LANSING

Notes To Basic Financial Statements

Annual debt service requirements to maturity for the Authority's debt are as follows:

Year Ended June 30	Principal	Interest	Total
2009	\$ 2,790,601	\$ 1,669,399	\$ 4,460,000
2010	3,011,495	1,568,505	4,580,000
2011	3,244,591	1,455,409	4,700,000
2012	3,480,602	1,344,398	4,825,000
2013	3,731,787	1,218,213	4,950,000
2014-2018	9,659,843	14,655,157	24,315,000
2019-2020	1,909,952	8,840,048	10,750,000
	\$ 27,828,871	\$ 30,751,129	\$ 58,580,000

Changes in Long-Term Debt. Long-term liability activity for the year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Amount Due Within One Year
1994 Tax Increment Bonds	\$ 6,875,305	\$ -	\$ (85,536)	\$ 6,789,769	\$ 123,338
1994 Lease Contract - City of Lansing	23,531,871	-	(2,492,769)	21,039,102	2,667,263
	30,407,176	-	(2,578,305)	27,828,871	2,790,601
Accrued Interest	9,732,609	1,035,608	(36,353)	10,731,864	-
	\$ 40,139,785	\$ 1,035,608	\$ (2,614,658)	\$ 38,560,735	\$ 2,790,601

6. COMMITMENTS

On November 16, 1999, the City of Lansing and County of Ingham Joint Building Authority issued \$13,000,000 in general obligation tax increment bonds with an average interest rate of 5.45% to provide funds for circuit court relocation expenditures. Of this issue, \$7,000,000 in principal plus interest is expected to be satisfied through tax increment revenues levied for the Authority. The Authority will satisfy these payments only to the extent of capture.

TAX INCREMENT FINANCE AUTHORITY OF THE CITY OF LANSING

Notes To Basic Financial Statements

7. PROPERTY TAXES

Property tax revenue is derived pursuant to a tax increment financing agreement between the Authority and various applicable taxing districts. Real and personal property taxes are levied and attach as an enforceable lien on properties located within the boundaries of the tax increment financing district. The City of Lansing bills and collects the taxes on behalf of the Authority. Delinquent taxes on ad valorem real property are purchased by the County of Ingham. Property tax revenue is recognized when levied in the government-wide financial statements and in the fund financial statements to the extent that it results in current receivables.

Except for property taxes captured from local schools that exceed contractual obligations, the Authority is entitled to all taxes levied on property within the Tax Increment Finance Authority of the City of Lansing district to the extent that the current taxable value exceeds the base year taxable value.

8. RELATED PARTY TRANSACTIONS

The Economic Development Corporation of the City of Lansing (EDC) provides administrative services to the Authority; the Authority and the EDC share a common board of directors.

Administrative fees, consisting of personnel costs charged to the Authority by EDC, were \$282,451. The Authority has no liability for compensated absences or pension benefits.

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REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

 an independent member of
BAKER TILLY
INTERNATIONAL

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

December 19, 2008

Board of Directors
Tax Increment Finance Authority of
the City of Lansing
City of Lansing, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the ***Tax Increment Finance Authority of the City of Lansing, a component unit of the City of Lansing, Michigan*** as of and for the year ended June 30, 2008, and have issued our report thereon dated December 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the entity's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as identified above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, the governing board, management, others within the organization, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lobson". The signature is written in a cursive, flowing style.